

# Utah's Economy - 2002

A.D. 2002 will be marked as an historic year in Utah. Not only because Utah hosted the Winter Olympics, but also for an economic reason. This is only the third year since 1950 in which the state has had fewer jobs than it did in the previous year. You have to go back to 1964 to find Utah's last declining-employment year — that's 38 years ago!

Employment declined by almost 8,000 positions, or -0.7 percent. As mentioned, this is very rare in the post-WWII era. Since 1960, Utah has averaged yearly employment gains of 3.4 percent, well above the nation's 2.1 percent average. So to experience a negative year garners attention — attention to the seriousness and uniqueness of this economic downturn.

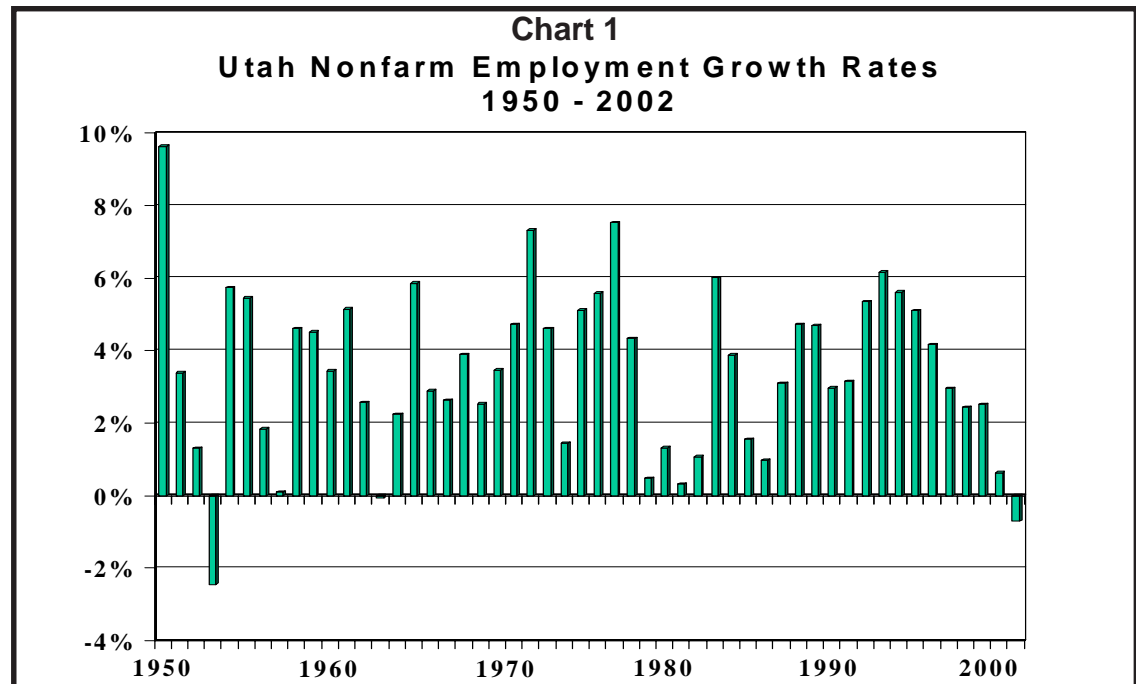
The national economy slid into recession in early 2001. The federal government tells us that it ended in late 2001, and that recovery has followed. But it's developing as a different kind of recovery. The economy grew by monetary standards (Gross Domestic Product), but contracted by employment standards. In this "recovery period," jobs were still being lost — both nationally and here in Utah. This has happened be-

fore, on a national level, after the early 1990's recession. But at the time of this writing, late 2003, prolonged job losses continue. The current "jobless recovery" is far outdistancing the early 1990's jobless recovery. The labor market hasn't seen this kind of distress since the 1930's.

The economy can grow monetarily and contract employment-wise by living off of productivity gains — getting more output per worker. The impact of technological in-

novations that were unleashed in the 1990's are still being implemented, utilized, and developed. They are churning out strong productivity gains. These productivity gains benefit the economy in the long run, but ironically have short-term drawbacks by undermining the need to increase employment.

This is a technology-led economic downturn. Too much euphoria and production capacity developed in the late 1990's. This



has to now be absorbed or eliminated, and this process is being played out in this recession. In the 1990's, a remarkable amount of excess capacity was built into the economy, and this is the primary reason that the employment stagnation has been multi-year, and may possibly continue into 2003.

## Close to Home

Utah's employment decline began in 2001, but the declines were strongest late in that year, particularly after the 9-11 tragedy. However, there were enough gains early in the year to mark that entire year as a job gainer. But 2002 was a complete year of employment losses. The deepest period of decline was between December 2001 and March 2002. Year-over employment levels were down 1.4 percent, with a temporary two-month "interruption" for the Winter Olympics. Even in those months, Utah's year-over employment was still negative.

The heart of the downturn centered upon Salt Lake County. As mentioned, this downturn was spawned by technology-industry excesses. The development of America's technology industries in the 1990's was highly concentrated in metropolitan areas. Therefore, when those industries contracted, it was America's metropolitan areas that suffered the strongest loss. Many nonmetropolitan areas held their own. This

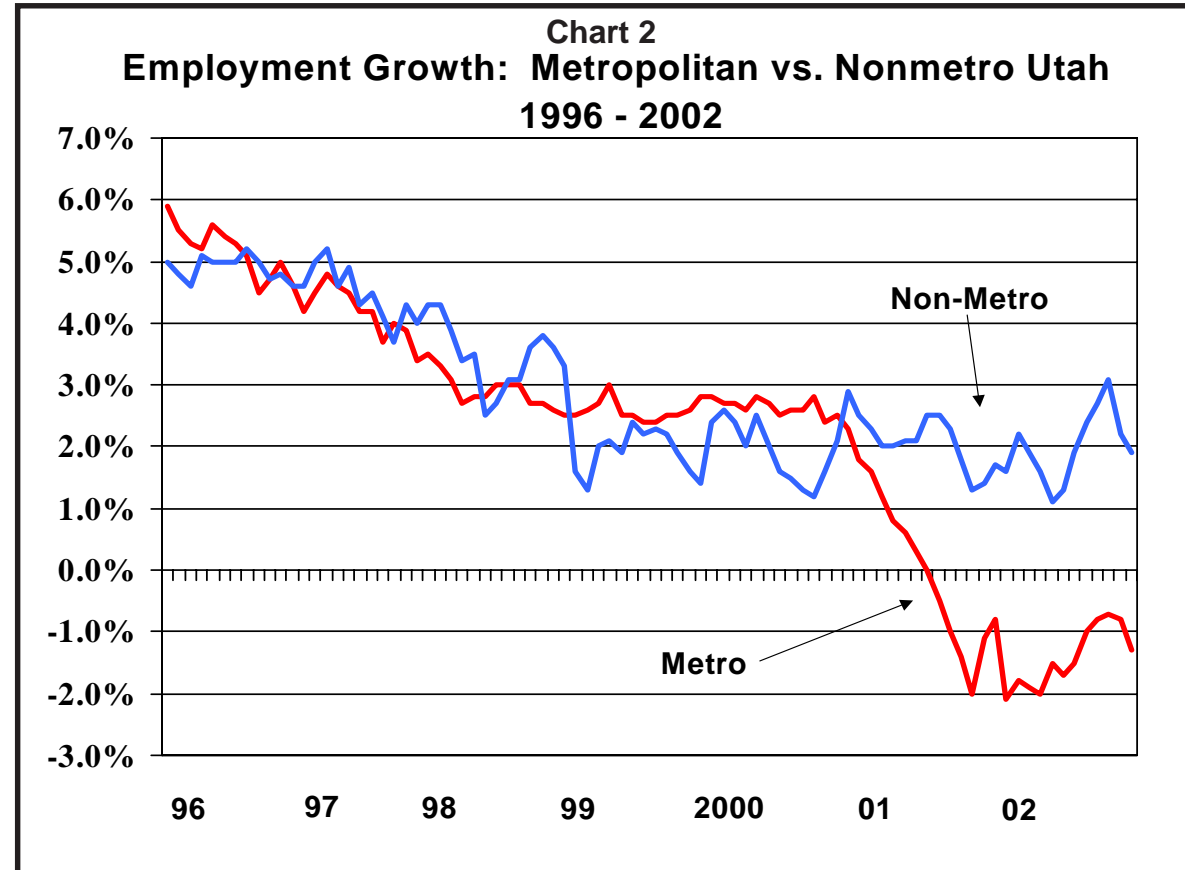
dichotomy was very pronounced in Utah, and is rare. Usually, it's the nonmetropolitan economies that are struggling, and the metropolitan economies are growing.

Although the Utah economy "only" contracted by 0.7 percent, Salt Lake County employment contracted by 2.0 percent, and Utah County by 1.5 percent. Utah's metropolitan areas took the brunt of this downturn. Davis County actually experienced employment growth, largely because of

jobs transferring into Hill AFB from base closures around the country. Weber County employment remained virtually unchanged.

## Employment by Industry

**Mining** In some parts of the state, this industry is quite important, but in the overall state scheme, its employment numbers are quite low. This industry employs around 6,900 workers, making up less than 1 per-



cent of all employment. Employment has fallen in this industry throughout most of the past decade, and 2002 is no exception, with about 300 fewer jobs this year.

**Construction** The construction industry recorded its third-straight year of declining employment. This really isn't a surprise considering it followed a record 11-year expansion, which tends to lead to overbuilding. Add to this the expected falloff from the completion of 2002 Winter Olympic-related projects. This industry lost nearly 3,800 jobs during 2002, and 4,500 since peaking in 2000. If not for housing activity being strong in 2002, losses would have been worse.

**Manufacturing** This industry has really been hit hard. It was losing jobs before the recession even began. Utah's manufacturing employment peaked in 1997 and has since been on a five-year slide. The bulk of this slide occurred during the 2001 recession period. This industry employed 113,900 Utahns in 2002, but this is 8,200 fewer positions than in 2001.

**Trade, Transportation, Utilities** This is the largest industrial sector in Utah, employment-wise. It was not immune from employment losses. Retail trade and trucking were hurt here. With weakened demand for goods across-the-board, both stores and

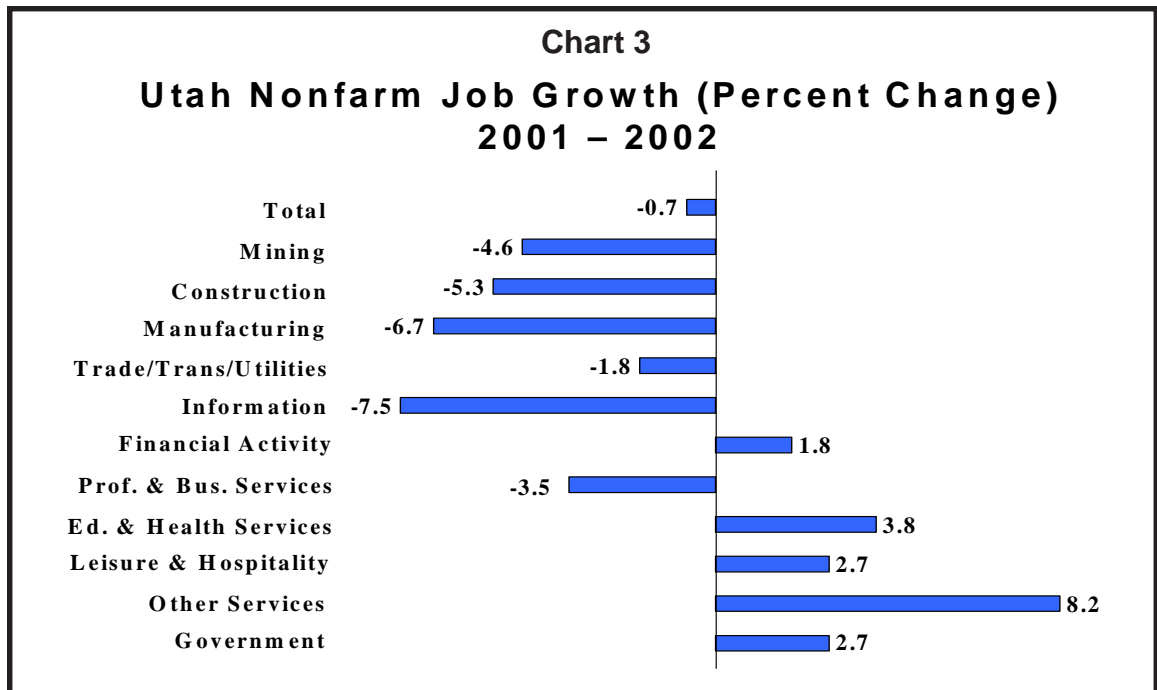
the trucking industry had to cut back on its services (and thus its employment levels).

Trade is a significant employment area in Utah, with employment around 130,700. But this is 1,200 fewer jobs than in 2001. This is the major area that captures consumer's dollars. If you look at how trade has been hurt in past national recessions, this 1,200-job loss in Utah isn't that dramatic. Consumer spending has been one of the bright, and surprising, components within this recession's dynamics.

Transportation employs around 40,800 Utahns. But this industry has been hit hard

in this downturn. Employment has fallen by 4.4 percent, caused by the trucking and courier service industries. Surprisingly, air transportation employment stayed the same.

**Information** The Information sector lost the most jobs — percentage-wise, not numerically. Employment fell by 7.5 percent. That's a lot in one year. The telecommunications industry has a large presence here, and it was one of the main culprits of this economic downturn. Also, internet service providers and dotcom's are classified here. Again, another area of "tech" downturn.



**Financial Activity** Finally an industry that grew. This isn't a huge industry in Utah, and most of it is largely centered in Salt Lake County. But the addition of 1,100 jobs is a welcome number in any economic downturn.

### **Professional and Business Services**

Those businesses whose major input is human capital are grouped together within this sector. It is generally a high-wage industry group. Activities such as software development, biotechnology, research and development, engineering, and accounting and legal services are found here. Aspects of the high-technology sector are found here, so it's not surprising to see that this industry lost employment during 2002. Over 4,700 jobs were lost. These are not blue-collar jobs, but white-collar jobs. This illustrates the non-discriminatory nature of this recession. This industry still employs nearly 132,000 Utahns, and is the industry that will have to lead the economic recovery.

### **Education and Health Services**

Thank goodness for this industry. Here was some good economic news. Over 4,400 new jobs developed in this high-wage industry. Health care, health care, health care. That's where the growth was. This industry has sailed right through the recessionary down-

turn without missing a beat. It has also grown nationally, and is largely driven by the country's changing demographics.

### **Leisure and Hospitality**

Here's another industry with employment gains. Over 2,600 new jobs developed in this industry, with total employment over 100,000. This may actually be somewhat of a surprise, considering all the talk about how tourism was hurt so badly following 9-11. This industry largely has two components — lodging, and food services. You might expect lodging employment to be down as a direct result of the post-9-11 tourism slump. But that's not the case. Lodging employment increased by around 800 positions. How-

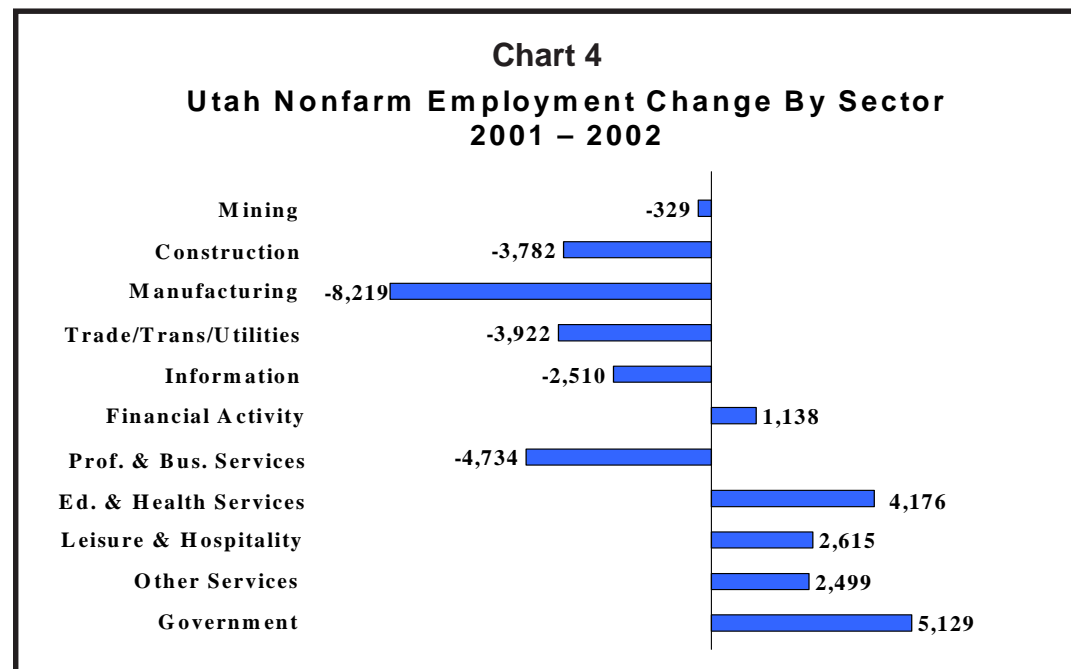
ever, the majority of the gains in this industry did occur on the food-service side.

### **Other Services**

This is kind of a catch-all sector on the service-producing side of the ledger. It has a potpourri of businesses within its classification, such as repair services, personal services, and membership organizations. It's not a particularly large sector, employing around 33,000 workers, but it did enjoy a strong growth rate of 8.2 percent over 2001.

### **Government**

Government was the most active employment arena. Over 5,000 new government jobs developed. Government



growth can be an economic asset when the private sector is struggling. Government did not artificially generate these jobs just to help counter the employment losses seen in the private sector. Instead, they were just the outgrowth of normal economic factors.

Government consists of three sectors — federal, state, and local. It was the federal and local levels that supplied the impetus. Federal jobs were largely gained via job transfers to Hill AFB from base closures elsewhere in the country, along with increased defense and homeland security spending. Local government, larger than both federal and state employment combined, grew in the education area, a natural consequence of Utah's young and expanding population base.

**High-Technology** High-technology in and of itself is not an industrial sector — at least not in the official government classification system. But a profile can be built by defining and carefully selecting bits and pieces of several of the industrial sectors already described. This industry should not be counted as an addition to the industries already discussed. It would be a subset of those industries. Workforce Services' current definition of high-technology shows employment peaking in December of 2000 at around 71,500.

Employment slid throughout 2001, reaching 63,000 by year's end. The slide didn't stop there as it continued through 2002. By year's end 2002, employment numbers were now down to 59,200. Across this two-year period, high-technology employment in Utah has fallen by 17 percent. Ouch! It just shows how much of this downturn was centered upon high-technology activities.

### **Wage Growth Slows**

Slow economies make for slow wage growth. In 2002, Utah's average annual nonagricultural pay was \$30,120. This is a small 1.6-percent year-over increase. This is the smallest average wage increase since 1993, when it increased by only 1.2 percent. That year was another year influenced by recessionary pressures. Inflation for 2002, as measured by the U.S. Consumer Price Index (CPI-U), was 1.6 percent. So the 1.6 percent wage increase for 2002 translates into no gain in purchasing power.

What industry's wage gains did better than inflation? Financial services and government were largely the only two sectors to show sizeable wage gains (over 3.5 percent). Most others showed only very modest gains. Two sectors — information, and professional and business services —

were sectors with average-wage declines. It's not a coincidence that these two sectors are heavy contributors to the high-technology sphere.

### **Conclusion**

The recession of 2001 battered the Utah economy. Utah has skipped right over many of the U.S.' previous recessions — but not this one. Utah's economy has become more like the nation's and thus more vulnerable to national hiccups. Employment levels fell throughout most of 2001, and continued right on through 2002. These declines in 2002 mark the first year since 1964 that Utah experienced fewer nonagricultural jobs than it did in the prior year. That in itself makes 2002 stand out as an historic year, even though it is of a downbeat distinction. But it does underscore the uniqueness and seriousness of the current economic malaise. There are economic factors currently being played out that could keep Utah's employment picture dim for the next year or two. If so, this period would be in sharp contrast to Utah's historic long-term economic performance.

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